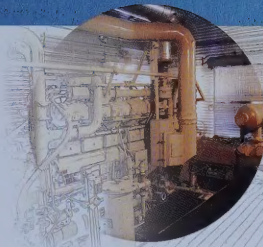


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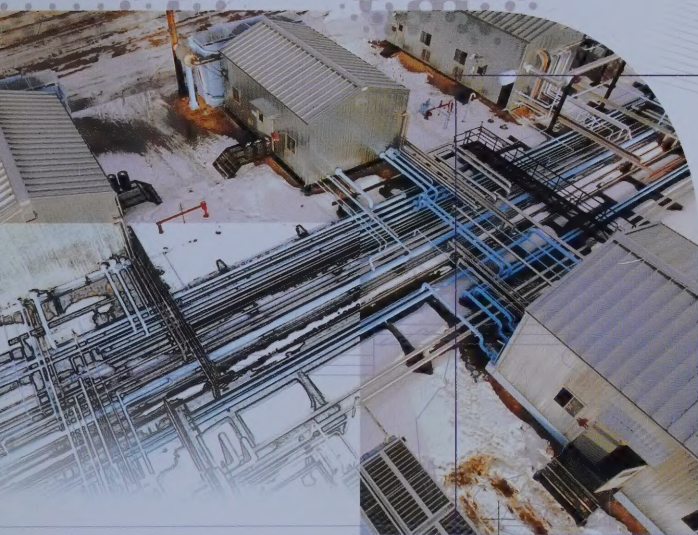
Winspear Business Reference
University of Alberta
1-188 Business Building
Edmonton, Alberta T6G 2R6



Enerflex Systems Ltd.

1998 Annual Report

$$T_d = T_s \left[\frac{P_d}{P_s} \right]^{(k-1)/k}$$



EFX

$$\int_{P_1}^{P_2} V \cdot dp$$

power
service
compression



CORPORATE PROFILE

CONTENTS

HIGHLIGHTS	1
MESSAGE TO SHAREHOLDERS	2
REVIEW OF OPERATIONS	6
MANAGEMENT'S DISCUSSION & ANALYSIS	21
GOVERNANCE	35
FINANCIAL REPORTS	
Management's	37
Auditors'	38
FINANCIAL STATEMENTS	39
HISTORICAL RECORD	
Ten Year Data	50
Quarterly Data	51
Common Share Data	51
CORPORATE DIRECTORY	52
SHARE PERFORMANCE	IBC

Enerflex is committed to becoming the global leader in the design, manufacturing, engineering, installation and service of compression systems for the production and processing of natural gas. Enerflex also manufactures and services power generation systems.

Enerflex started operations in 1980 in Calgary, Alberta and has become the dominant supplier of equipment and services in the Canadian market. In recent years Enerflex has achieved significant global recognition as a provider of highly engineered equipment. This reputation has been earned by scrupulous attention to quality, speed of delivery and service and support.

Enerflex became a public company in 1993. Enerflex trades on the Toronto Stock Exchange under the symbol "EFX" and is a constituent of the TSE 300 Index.

ANNUAL MEETING

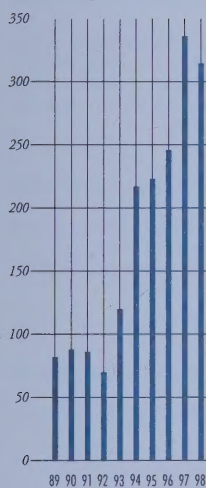
The Annual Meeting of the Shareholders of Enerflex Systems Ltd. will be held at the Westin Hotel, 4th Avenue & 3rd Street S.W., Calgary, Alberta, on Wednesday, March 31st, 1999 at 2:00 p.m., Calgary time.

HIGHLIGHTS

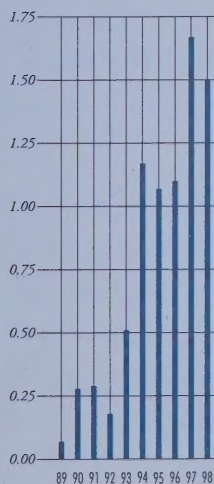
(Millions, except per share data)

1998 1997 1996

Revenue
(\$ Millions)



Net Income per Common Share
(\$)



RESULTS

Revenue	314.5	336.2	245.9
EBITDA ¹	42.4	46.7	32.4
Income before income taxes	38.1	42.7	27.8
Net income	22.6	25.2	16.5
Net income per			
common share - basic	1.50	1.67	1.10
Cash from operations			
before changes in non-			
cash working capital	26.0	28.8	19.7
Capital expenditures, net			
Rental equipment	10.2	0.6	(2.2)
Property, plant and			
equipment	23.5	3.3	2.7
Dividend per common share (\$)	40	30	25

FINANCIAL POSITION

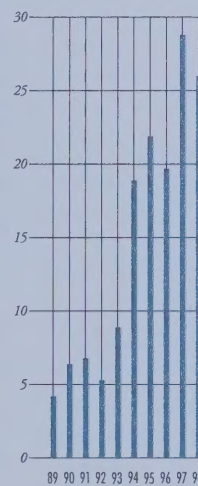
Working capital	56.0	58.0	37.7
Total assets	159.5	142.7	106.4
Long-term debt	15.2	—	—
Shareholders' equity	100.1	87.0	66.4

KEY RATIOS

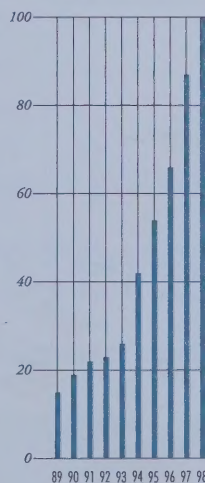
Gross margin			
as a % of revenue	22.4	21.7	21.4
Pre-tax income			
as a % of revenue	12.1	12.7	11.3
Return on opening equity	26.0	38.0	30.9

¹ Earnings before interest, taxes, depreciation and amortization

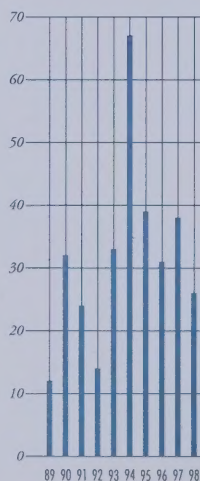
Cash Flow From Operations
(\$ Millions)



Shareholders' Equity
(\$ Millions)



MESSAGE TO SHAREHOLDERS

Return on Equity
(%)

By any standard, 1998 was a difficult year for the worldwide energy industry. While Enerflex provides products and services primarily to the natural gas industry, the majority of our customers produce both oil and gas. Oil prices collapsed during the year to the lowest levels of the past decade resulting in a steep drop in cash flow for much of the producing industry. This, in combination with unattractive equity markets for much of the year and an industry wide lack of debt capacity, put significant downward pressure on capital spending.

When viewed in the context of these very difficult market conditions, Enerflex delivered solid results. Revenues declined by 6% to \$314.5 million while earnings decreased by 10% to \$22.6 million or to \$1.50 per share. These results generated a return on shareholder equity of 26%.

For the first time in our history, net book value exceeded \$100 million at December 31, 1998 representing an annual increase of 15%. This was achieved after the payment of our regular annual dividend of 40 cents per share totaling \$6.0 million and \$3.3 million used to repurchase 114,100 common shares under the provisions of our 'Normal Course Issuer Bid'.

Enerflex cannot influence market fundamentals, but how we react and adapt to a changing market is entirely within our control. Our thrust in 1998 has been to stick to our long-term strategy of building your Company in the global market for gas compression, power generation and service while working hard to provide customers and, particularly, alliance partners with programs that address the current environment. Examples of this are new and innovative lease programs that allow producers to make the most of their cash flows and compressor stocking programs that facilitate 'just in time' delivery of equipment. Trade-in and re-marketing programs have allowed producers to optimize their compression assets.

Largely as a result of our ability to adapt, 1998 had many positive aspects. For the last several years compression equipment for Floating Production, Storage & Offloading vessels (FPSO) has been a steadily growing part of our business, and in 1997 came to represent 18% of Enerflex Manufacturing's revenues. Since FPSOs are directly involved in the offshore production of oil their economic viability is tied to world oil prices. Revenues for this type of equipment declined by 86% in 1998 as operators deferred projects awaiting a recovery in commodity pricing. Our largest division did a remarkable job of compensating for this by increasing international sales for land based applications and growing domestic shipment levels to end the year with total division revenues virtually unchanged from the prior year.

MESSAGE TO SHAREHOLDERS

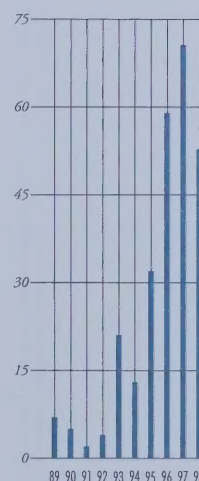
Pamco, our product support division, saw revenues grow to a new record. Reduced budgets for new equipment have resulted in the installed base of compressors operating at a higher overall load factor thus increasing the demand for maintenance, repair and overhaul services.

Throughout our history Enerflex has taken advantage of any lull in market activity to invest in and build our capabilities. 1998 was no exception with a long list of successfully completed initiatives.

Δ In keeping with our long-term strategy, we continued to grow our worldwide sales and service capability by adding a product support operation in Aberdeen, Scotland, a sales and product support subsidiary in Paris, France and a sales and engineering office in Houston, Texas. All three locations have shown encouraging results in their first few months of operation and are expected to be strong contributors to our international business in the future.

Δ Enerflex Manufacturing's previously announced new 328,000 square foot state-of-the-art manufacturing facility proceeded on time and on budget throughout the year. This new facility which more than doubles the size of our existing plant will play a key strategic role in the future of Enerflex. Compression equipment for both the domestic and international markets has become significantly larger and more sophisticated in recent years rendering most existing industry manufacturing facilities inefficient and in some cases, obsolete. Upon completion in April of 1999 this plant will set a new industry standard in terms of size capability, efficiency and worker safety.

International Revenue
(\$ Millions)



We are committed to becoming the global leader in

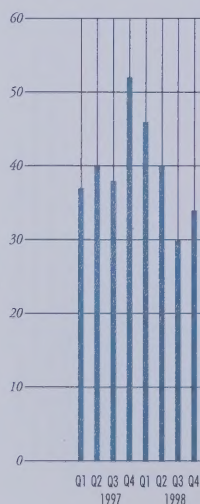
compression systems

for the production and processing of natural gas



MESSAGE TO SHAREHOLDERS

Quarterly Net Income per Share
(Cents per Share)



△ Pamco successfully implemented a new enterprise resource planning information system that will provide substantial benefits to its management team and customers. Supplied by Baan Systems and fully Year 2000 compliant, this system will collect individual unit operating and maintenance history providing data for more cost effective scheduling of maintenance and repair work. All Pamco's Canadian and international operations will have real time access to the system allowing management of parts inventories and manpower on a world-wide basis.

With regret we saw Mr. Ronald G. Willox and Mr. Wayne S. Hill leave your Board of Directors during 1998. Their departure represents a nostalgic but logical conclusion to the exit of Toromont Industries Ltd. as a major shareholder in 1997. Both Directors made a significant contribution to Enerflex during their tenure of over ten years. On behalf of the Board of Directors, the Enerflex management team and all our employees, I would like to thank Mr. Willox and Mr. Hill for their wisdom, guidance and hard work over the years.

During the course of the year we were fortunate in being able to add two, extremely well qualified outside Directors to our Board. Mr. Geoffrey F. Hyland, President and CEO of Shaw Industries was elected to the Board at the Annual General Meeting held on April 30, 1998. Mr. Hyland's knowledge and experience relative to the global energy service sector is proving to be of great benefit as Enerflex pursues world markets. Mr. Patrick D. Daniel, President and COO, Energy Delivery of Enbridge Inc. joined the Board on August 11, 1998. Mr. Daniel brings a unique and valuable perspective of the energy transportation and distribution industry to his role as a board member.

Mr. Malcolm R. Cox, President and COO of Enerflex Systems Ltd. was also elected to the Board of Directors at the Annual General Meeting. Mr. Cox joined Enerflex in 1995 as President of our Enerflex Manufacturing division and was appointed to his current position in 1997. Malcolm's career background in large, complex international projects has played an important role in the execution of our strategy in recent years.

The outlook for 1999 can best be described as mixed. The oil sector appears likely to see weak world prices for much of 1999, which will have a continued negative impact on industry cash flows and capital spending. On a more positive note, the Canadian gas industry will not be

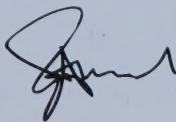
MESSAGE TO SHAREHOLDERS

constrained by export pipeline capacity, demand is enjoying an upward trend and domestic gas prices are robust. Reservoir decline rates will continue to accelerate driving increased demand for compression equipment and related services.

Although the timing is uncertain, long-term fundamentals of the North American natural gas market point toward a strong resurgence in exploration and development, continued growth in gas production volumes and steadily improving gas prices. Our plan for the coming year can be summarized as follows:

- △ Continue the execution of our strategy of building upon our leadership position in the Canadian market while steadily growing our global market share and reach.
- △ Provide creative financial and other alternatives to assist our customers in difficult economic times. These include financing options that match equipment costs with revenue streams and alliance arrangements designed to reduce maintenance and operating costs.
- △ Capitalize on our investment in Enerflex Power Systems to significantly increase our share of the rapidly growing natural gas fuelled electrical power generation market both in Canada and around the world.
- △ Strive to provide superior rates of shareholder return on equity and capital employed through continually improving our operating efficiency. As an example, our new plant will drive down manufacturing costs allowing us to both strengthen our competitive position and protect our profitability in the current environment.

On behalf of your Board of Directors, I would like to thank our employees for their hard work and dedication, our suppliers for their contribution to our results and our shareholders for their loyalty and support.

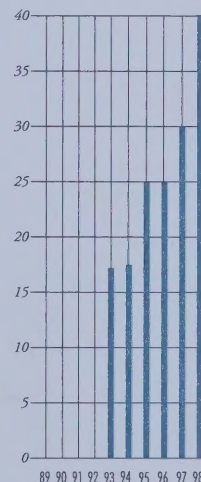


P. John Aldred

Chairman of the Board and Chief Executive Officer

February 9, 1999

Dividends per Share
(Cents per year)

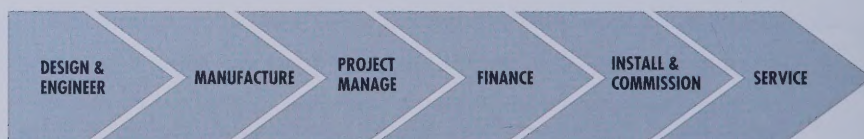


REVIEW OF OPERATIONS

OVERVIEW

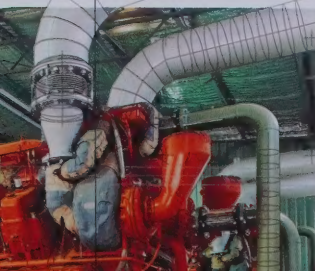
Enerflex Systems Ltd. manufactures, services and leases compression systems for the production and processing of natural gas and natural gas-fuelled power generation systems. Enerflex's expertise includes design, engineering, manufacturing, project management, financing, installation, commissioning and after-sales service and support of these systems.

Since its inception 19 years ago, Enerflex has been providing industry with increasingly innovative modular systems. It offers the broadest range of capabilities to the natural gas compression market. Enerflex has attained its leadership position in the Canadian market through its focus, commitment, technical innovation and high standards of quality and service. These strengths enable Enerflex to continue to build its international reputation and become a leading global supplier of gas compression and power generation systems.



Enerflex is committed to the full life cycle support of its customers' equipment, first by engineering, assembling and installing the best equipment for the application and secondly, by providing quick response for parts and technical expertise no matter how remote the location.

Our leadership in **compression**
+ power + service
will enable us to become a global supplier of gas compression and power generation systems



REVIEW OF OPERATIONS

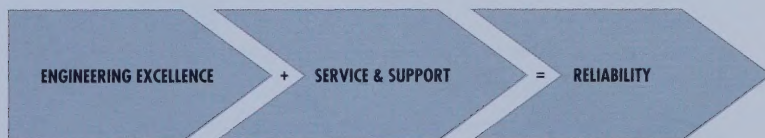
Engineering excellence

Enerflex's technological leadership is the result of many years of experience in designing and engineering a broad array of gas compression applications. Canada's geography, climate and high safety standards have driven innovation in our packaging techniques for high specification modular facilities, for demanding customers and for use in remote locations under harsh climatic conditions. Enerflex has also developed a highly skilled work force that is globally cost competitive.

These high standards have given Enerflex a competitive advantage in the international market. Over the last two years Enerflex has completed four major projects for the North Sea built to specifications that exceed the rigorous standards required in the offshore market. This experience has further developed the engineering capabilities of the Company.

Service and support

Enerflex has built Canada's largest infrastructure of service branches to support the natural gas compression industry and, with the expansion of its international locations, has the capability to service large and complex gas compression and power generation projects anywhere in the world.



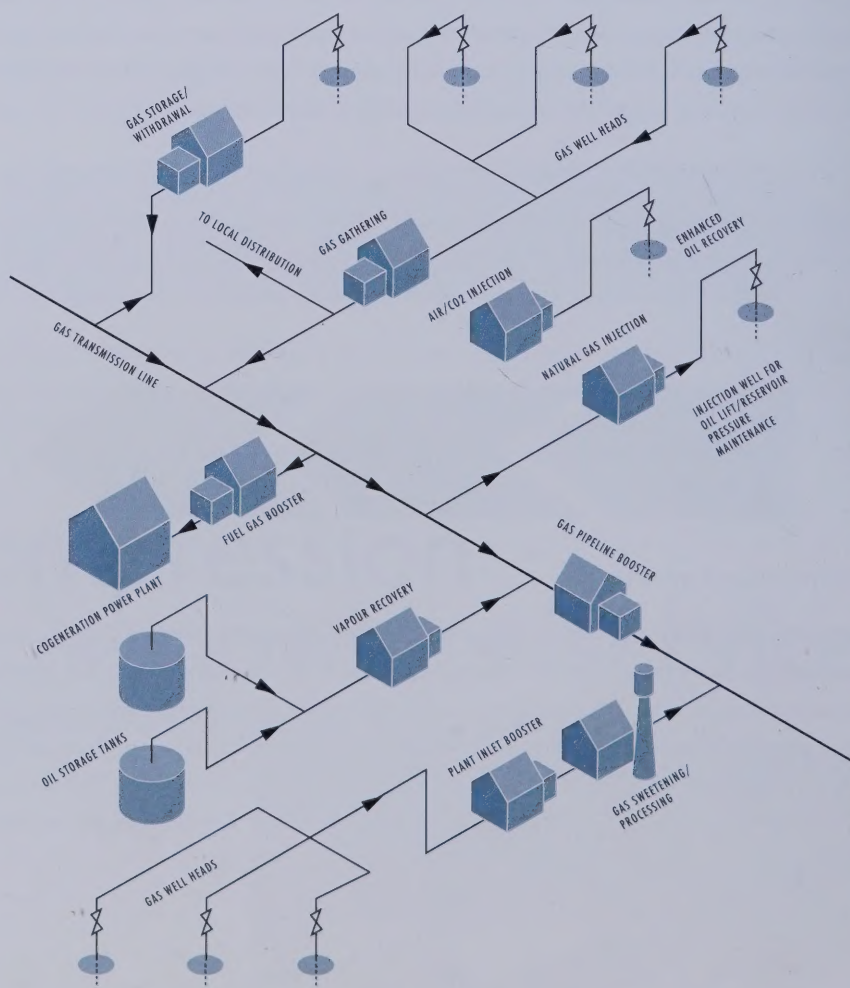
International growth

Enerflex is well positioned to meet the needs of international gas compression markets, most notably large horsepower, high specification compression applications in developing regions. Management expects international sales to represent one-half of the Company's manufacturing business within the next few years. This geographic diversification will mitigate significantly, if not entirely, the effects of the cyclical nature of the Canadian market. This strategy is expected to contribute to significant and consistent growth for Enerflex over the next several years.

REVIEW OF OPERATIONS

COMPRESSION

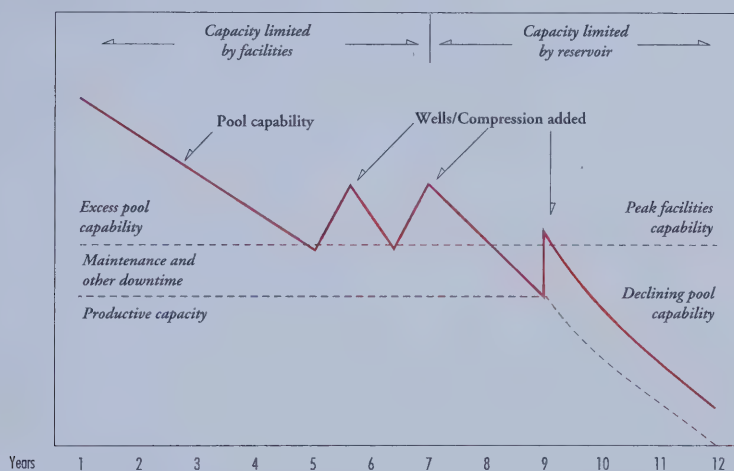
Natural gas occurs in underground “reservoirs” and is brought to the surface at a “wellhead”. It is typically compressed several times between the field wellhead and its end use point, such as a burner tip. Compression equipment is generally used to increase the pressure within gas gathering systems and processing plants to enable the delivery of gas to main-line transmission facilities and finally to market. In a typical gas field, several compressors may be required to sustain the pressure necessary to deliver gas to the main high-pressure transmission facility.



REVIEW OF OPERATIONS

Demand for compression equipment results from additional production as new wells are drilled and from the declining reservoir pressures of existing fields. A combination of additional compression and development drilling is invariably required to maintain production volumes in the face of declining reservoir pressures. Virtually every cubic foot of gas produced requires field compression.

Gas Pool Productivity



Compression can significantly improve the economic value of existing reserves

Enerflex is primarily engaged in packaging and servicing reciprocating field compressors. A typical compressor package consists of a steel or concrete skid, gas compressor, driver (reciprocating engine, gas turbine or electric motor), gas cooler, liquid or particulate separation, piping and a control system. In colder climates, the package is enclosed in an insulated building. The size of packages generally ranges from 50 to 6,000 HP.



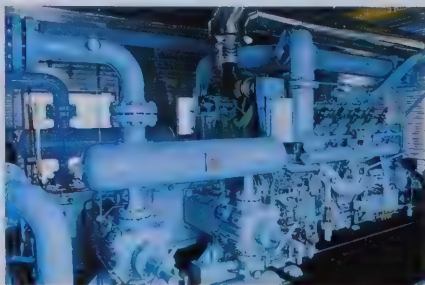
Almost all natural gas is
compressed
 between wellhead and burner tip.

REVIEW OF OPERATIONS

Typical gas compression applications include:

Land based applications

- Δ *Wellhead Compression* — Compression at or near the wellhead is used to boost the pressure of produced gas to the level of the gas transmission pipeline. Rarely is the wellhead pressure sufficient to avoid compression.
- Δ *Gas Gathering* — Mid to large horsepower compressors (800 to 5,000 HP) deployed at a central location in a field are used to receive and boost gas pressure from several wells. This approach is often more economical than the use of smaller compressors at individual wellheads.
- Δ *Gas Storage* — Underground gas storage facilities, such as depleted oil or gas reservoirs or salt caverns, require compression to inject gas into the storage reservoir and subsequently withdraw the gas for re-injection into the pipeline. Storage facilities typically utilize 2,000 to 3,000 HP compressors.
- Δ *Fuel Gas Boosting* — Most large gas turbine power generation plants require compressors to boost the pressure of the fuel gas from the low (30 PSI) pressure distribution system of the local utility, up to the higher pressures (350-650 PSI) required by the turbine. These units are typically driven by an electric motor, and their control systems need sophisticated regulation to ensure a proper flow of fuel while the turbine is undergoing load changes.
- Δ *Gas Lift* — Compressors are used to increase oil production by injecting gas into the oil reservoir. This increases reservoir pressure and facilitates the flow of the oil.



- Δ *Enhanced Oil Recovery (EOR)* — Operators use EOR to enhance the flow of viscous oil from certain reservoir formations. This process involves the injection of carbon dioxide or other such gas by means of compression.
- Δ *Gas Processing* — Gas plants require compression for processing requirements and may also include boosting for the inlet and outlet supply pipelines. Such compressors typically range in horsepower from 1,000 to 6,000 HP.

REVIEW OF OPERATIONS

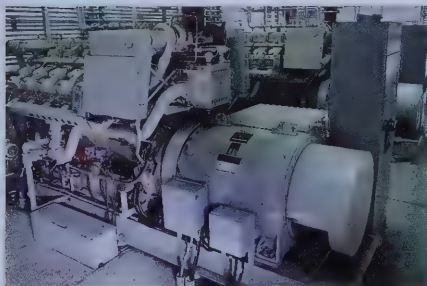
**Offshore applications**

Enerflex's commitment to high engineering standards and experience in the deployment of modular compression equipment have enabled it to become a participant in the international offshore oil production industry. Compression equipment is used on FPSO (Floating Production, Storage & Offloading) vessels, and

other mobile production units (MPU) to re-inject gas associated with the production of oil back into the reservoir to increase production or where pipeline access is not available or otherwise economic. Also, most offshore operating regulations prohibit the flaring of gas. Reciprocating compression equipment is gaining market acceptance for gas re-injection projects where the gas volumes are generally lower and the required differential pressures are high.

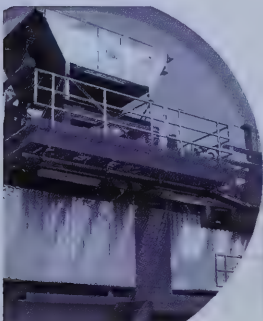
POWER

The same capabilities that have enabled Enerflex to be successful in the natural gas compression industry have direct application to the manufacture of modular power generation equipment.



Enerflex's power systems are primarily used for the generation of prime, standby or peak shaving power and cogeneration. In the cogeneration process waste heat produced by the driver is captured and utilized for water or space heating, steam production or cooling by means of absorption and refrigeration.

Power equipment may operate on natural gas, landfill, digester fuel, propane, diesel fuel, or a combination of these fuels.



Enerflex's modular

power generation

systems are used for prime, standby, peak shaving power and cogeneration.

REVIEW OF OPERATIONS

A typical power generation unit is comprised of a natural gas reciprocating engine or turbine driver, generator and control devices. These components are mounted on a steel skid and may incorporate such features as waste oil and coolant drain-storage tanks, equipment cranes, floor drains and in-skid waste tanks. Stand-alone units may also be enclosed and include lighting, insulation, self-contained gas-fired or glycol heaters and separate rooms for personnel operations.



Enerflex manufactures high specification modular and portable power generation units with outputs ranging from 15kW to 3 MW. Multiple set configurations can also be provided. In recent years, Enerflex has designed and installed plants with power outputs of up to 13 MW.

In addition to the oil and gas production industry, customer applications include industrial plants, medical centers, office buildings and independent power producers.

SERVICE

Reliability is of paramount importance in maintaining the operational effectiveness and revenue generating capabilities of customers' gas compression and power generation systems. Compression and power equipment is supported by a comprehensive inventory of parts and range of services, including preventative maintenance, trending analysis, onsite trouble shooting, diagnostic testing and complete unit overhauls. Parts and services are available 24 hours a day, 7 days a week. Services are also provided under long-term maintenance contracts.



Compression equipment and power systems are maintained by our

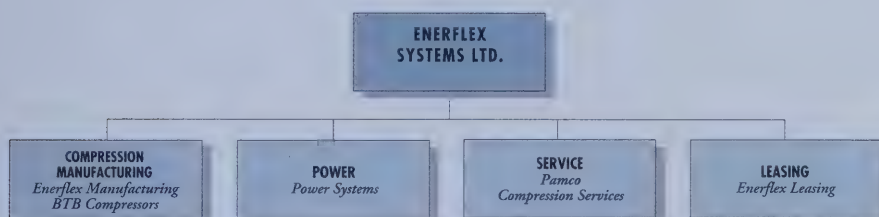
service

division, anywhere, anytime and under all conditions.

REVIEW OF OPERATIONS

ORGANIZATION

Enerflex has organized its operations into divisions that focus on the specific needs of its customers in the natural gas compression and power generation industries. This structure fosters an entrepreneurial atmosphere within the management team. There is a great deal of synergy between the divisions; on many occasions the expertise of a number or all of the individual divisions will be combined to provide a single solution for the customer.



PAGE 13

Compression Manufacturing

Enerflex Manufacturing

Enerflex Manufacturing is the Company's largest division representing approximately 50% of Enerflex's total revenues. The division is a leading global specialist in the custom design, fabrication and installation of modular compression systems for the production and processing of natural gas.

In 1998, Enerflex Manufacturing continued to successfully engineer and project-manage a wide range of technically demanding projects with unusual applications and rigorous specifications. During 1998 orders for new custom compression equipment were significantly constrained by the declining cash flows of both Canadian and international customers due to the reduction in world oil prices. The backlog of undelivered orders going into 1999 is substantially less than a year earlier. The division plans to derive 50% of its revenues from international orders within the next few years and continues to invest in broadening its international sales and support capabilities with the opening of sales and marketing operations in Paris, France and Houston, Texas.



REVIEW OF OPERATIONS

The long-term outlook is positive for both the Canadian and international natural gas compression markets. To meet anticipated future production requirements, Enerflex is proceeding with a major expansion of its manufacturing facilities on 40 acres of land three kilometers north of the current facility.

Enerflex recognized that it had an opportunity to introduce the very latest in modern manufacturing methods. A team comprised of Enerflex production and engineering employees together with industrial engineers and facilities consultants worked to redesign the plant layout, optimize the process flows and to incorporate sophisticated, leading-edge manufacturing technology which will significantly increase capacity, quality and productivity. The new facility has been designed to include an expanded, multiple bay assembly concept to accommodate larger offshore projects and the increasing size of land based units. Heavy lift overhead-crane capacity will improve material and unit handling. The "state-of-the-art" paint facilities will enable the completion of systems to the standards required for harsh marine environments. The capacity to assemble larger systems, the efficiency gains and reduced delivery lead times will have an important impact in both Canadian and international markets.

The new facility is scheduled to be in operation in the spring of 1999, at an estimated cost, including land, of \$38 million. Once completed, the new manufacturing plant will arguably be the most efficient and sophisticated compressor packaging facility in the world. The initial expansion will more than double current capacity, the land area will also enable capacity to be further doubled in the future.

Enerflex Manufacturing continues to offer partnership arrangements with customers, whereby Enerflex becomes the supplier of choice. These alliances typically result in lower overall costs, more timely delivery for customers and more efficient scheduling and component procurement.

BTB Compressors

BTB Compressors is the leading manufacturer of standard pre-engineered compressor packages for the Canadian natural gas industry. The product line includes models ranging from 145 to 1,060 horsepower. A comprehensive array of options is available to allow customers to meet their specific site requirements while



REVIEW OF OPERATIONS

taking advantage of the quality, benefits, cost savings and short delivery times derived from standardization of the product line. BTB operates from shop facilities in Calgary and maintains a comprehensive inventory of stock compressors and major components to enable quick response to customer orders.

While the orders for custom design compression equipment were adversely affected by market conditions in 1998, acceptance of BTB's quick delivery standardized products continues to grow, especially for the higher horsepower "C" series and sour gas units. BTB had a record year as producers pursued smaller, less capital intensive projects offering shorter cycle times. December of 1998 marked the receipt of a customer order for BTB's 300th compressor unit, a significant milestone in the division's five-year history that demonstrates strong market acceptance of their product line and the concept of standardization. BTB's revenues were 10% of Enerflex's total revenue in 1998.

POWER

Enerflex Power Systems

Enerflex has been providing power generation equipment for many years through its Pamco Power Products group. In late 1997 these operations were elevated to a full division to focus on the expansion of Enerflex's power generation equipment and service capabilities. The Division's mandate is to pursue expanding opportunities in both the Canadian and international markets for power generation systems. Power Systems is developing alliances with other service and equipment suppliers, such as gas turbines, to provide a broader product range. Power Systems will also have the option to assemble larger systems in the new manufacturing facility. Considerable effort was made, in this first full year of operations as a division, to enhance marketing efforts and to create the right operational environment to pursue its mandate.

The division derives revenues from the energy, industrial, municipal and institutional markets. Revenue growth was lower than planned due to the impact of lower world oil prices on sales

to the energy sector, nevertheless bid activity was strong during the year in the other sectors, especially for export deliveries in 1999. Revenues from the sale of power generation systems were 2% of Enerflex's total revenue in 1998.



REVIEW OF OPERATIONS

Service

Pamco

In 1998 Pamco expanded its mandate to support the other Enerflex divisions in both their domestic and international operations. It assumed the management of the three service branches in Australia and opened a branch in Aberdeen, Scotland to support compression and power generation systems in both offshore and land based applications in Europe.

Pamco is the largest supplier of parts and maintenance services for natural gas engines and compressors in Canada. Pamco is the Canadian distributor for Waukesha engines, Ariel compressors and Dresser-Rand compressor parts. Pamco has more than 240 employees, operates over 70 fully equipped service vehicles, 18 parts and service branches and satellite locations and the Enerflex Training Centre.



In 1998 Pamco achieved certification under the ISO-9002 Quality Certification Program.

In 1998 Pamco made a major investment in enterprise business resource planning information technology which will significantly improve inventory management and the scheduling of the maintenance of customer equipment. The international parts and service branches will be integrated on the same system in 1999.

Long term maintenance alliances with customers are expected to be a larger component of future revenues. Pamco's training programs, comprehensive inventory, high personnel utilization rates, branch network and information technology provide the customer with significant improvements in the full life-cycle economics and reliability of their compression and power generation investments.

REVIEW OF OPERATIONS

Revenues from Pamco's Canadian and international operations were 22% of Enerflex's total revenues in 1998. The outlook for 1999 is positive as the installed base of equipment and production volumes continue to grow and operating load factors remain high.

Compression Services

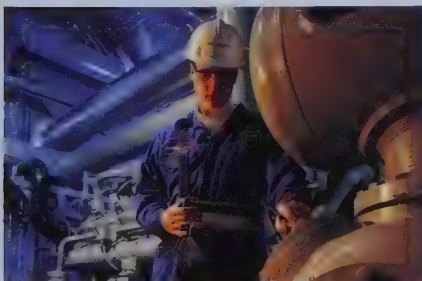
Compression Services is the leading Canadian specialist in the re-manufacture and reconfiguration of existing compression equipment and the supply of new compressor systems using re-manufactured components. Over the life cycle of a compressor, the reservoir pressure of the gas field will decline, requiring re-engineering and modification of the systems to optimize operations. More than 5,500 gas compressors have been installed in Western Canada since the late 1960s.

This expanding and ageing fleet will potentially increase the need for these specialist services. Compression Services' experienced engineering team, shop fabrication and field installation capabilities enable it to respond rapidly to customer requirements. Work is performed in the shop facilities or in the field, depending on the magnitude and nature of the work.

Compression Services witnessed a dramatic shift in its market this past year as producers favoured fast, low cost field modifications over more costly and comprehensive shop projects. Compression Services revenues were 10% of Enerflex's total revenues in 1998.

Enerflex Leasing

Enerflex Leasing is a leading provider of leased modular compression equipment in Canada. Contracts typically run from a few months to five years and are available with a variety of financing options. Leases can also be combined with installation and full maintenance contracts. Synergy with the other Enerflex operations provides the Leasing division with significant advantages in the marketplace. Lease arrangements are also available for power generation equipment.



The need for specialized engineering, fabrication and installation

services

will increase as compressor systems age.

REVIEW OF OPERATIONS

The limited access to capital and the continuing need to increase or maintain gas production drove the demand for rental equipment in 1998, particularly in the second half of the year. Revenues, earnings and the size of the compressor rental fleet all reached record levels in 1998 leading us to anticipate further growth in 1999.

In 1998 Enerflex worked with its customers to facilitate new and innovative financing arrangements to meet their capital equipment requirements. In 1999 the range of financial products will be broadened to provide additional alternatives.

INTERNATIONAL

A significant component of the Enerflex growth strategy is to achieve 50% of its sales of manufactured systems from international markets. The establishment of support and sales operations in target market areas is an essential element in this strategy. Three additional operations were successfully opened in 1998. Overseas sales are directed from the Calgary based international marketing group.



Although international sales decreased by 25% to \$52.8 million in 1998 this was a result of specific declines in the sale of power generation equipment in Australia and FPSO units destined for the North Sea. Other international sales, which doubled in 1998, were made to a broader range of customers in more diverse locations, proving the strength of these marketing initiatives.

REVIEW OF OPERATIONS

Australia

Enerflex opened its operations in Sydney, Australia in 1992 and operates through its wholly owned subsidiaries; Gas Drive Systems Pty. Limited and Enerflex Systems Pty. Limited.



The Australian operations support the expansion of Enerflex's marketing, sales and application engineering capabilities and continue to provide after-sales support and service for the sale of compression equipment into Australia, the South Pacific and South East Asia. Enerflex is the exclusive distributor for both Ariel compressors and Waukesha engines in Australia and Papua New Guinea and has built a leadership position in the

design, installation and after-sales support for power generation and co-generation equipment. Service branches are located in Sydney, Perth and Alice Springs. Although the market in Australia for parts and service was robust in 1998, sales of power systems were severely affected by the general economic conditions in South East Asia and the impact of the decline in gold prices on mining activity.

United Kingdom

In 1997 Enerflex became the Ariel distributor for the United Kingdom and the North Sea and opened a sales and application engineering office in Birmingham. In July 1998, a parts and service operation was opened in Aberdeen, Scotland to provide maintenance parts and support for both onshore and offshore European customer facilities. The Aberdeen operations have already exceeded initial expectations of revenue and profit.

France

In July 1998 Enerflex incorporated a subsidiary company in Paris, France to provide additional support for longstanding customer relationships in the French energy industry and to market into those areas where French is the primary language, including Africa and the Middle East.

USA

Also in July 1998 a sales office was opened in Houston, Texas to focus on the overseas operations of major multi-national US-based producers and engineering contractors. This office has achieved early success in these markets.



REVIEW OF OPERATIONS

TECHNOLOGY QUALITY AND TRAINING

Technology

Enerflex increases its competitive advantage by continuously improving its technical expertise. In the past, with the exception of the development work performed at BTB, engineering resources have been focused on project-related or customer problem-solving activities. In 1998 Enerflex organized a separate Product Development group with the mandate to drive Enerflex's packaging technology and develop products that will facilitate entry into new gas compression markets. In 1998 Enerflex worked with major suppliers on projects focused on the development of a proprietary control panel, the manufacture of a prototype integrated structure to replace the traditional skid in low horsepower units and the development of rotary screw compressor packaging techniques. Enerflex is expanding its commitment of research and development resources and expenditures to record levels in 1999.

Quality

Commitment to quality has been an essential element in the success of Enerflex. High standards of quality are paramount to succeed in the international market. The technical standards achieved in Canada have enabled Enerflex to meet or exceed rigorous international quality and technical requirements. In September 1998 the Pamco service division obtained certification under the ISO-9002 Quality Certification Program. The Enerflex Manufacturing, BTB and Compression Services divisions are also certified under the ISO-9001 Program. The other divisions are currently completing certification.

Training

Enerflex is committed to supporting its employees and customer personnel with extensive training to keep them at the leading edge of the specialized technical skills needed to operate and service the increasingly complex equipment. Education is an important element in the full range of services offered by Enerflex to both its Canadian and international customers.

Most proposals for international projects now offer a formal training option. In 1998 the Training Centre operated over 50 schools providing both theory and practical instruction.



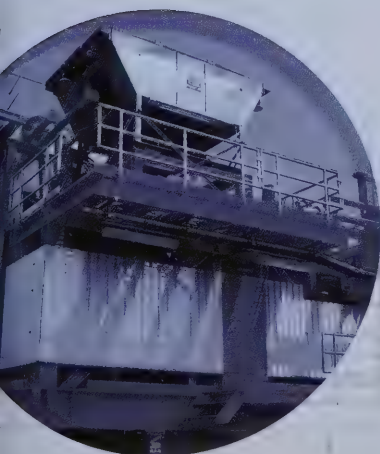
RESULTS OF CONSOLIDATED OPERATIONS

Enerflex achieved revenues and net income in 1998 only marginally lower than in 1997. While Canadian gas industry conditions and prices remained strong during the year, weakening world oil prices significantly reduced cash flow in the energy industry and denied the industry access to equity capital. Under these conditions industry capital expenditure programs for energy development and processing, in Canada and overseas, were significantly reduced.

- Δ Total revenues in 1998 decreased by 6.5% to \$314.5 million from \$336.2 million in 1997.
- Δ Revenues in Canada decreased by 1.5% to \$261.7 million from \$265.6 million in 1997.
- Δ International revenues decreased by 25.3% to \$52.8 million or 16.8% of total revenues.
- Δ Net income decreased 10.5% to \$22.6 million in 1998 compared to \$25.2 million in 1997.
- Δ The return on opening equity was 26.0% in 1998 compared to 38.0% in 1997 and the five-year average of 40.2%.

Segment revenues and earnings before interest and taxes

The Company's three operating segments are Compression and Power Systems, which includes the design, fabrication and installation of modular compression and power systems, Service, which includes the supply of parts, maintenance and the re-engineering of used compression systems, and Leasing.

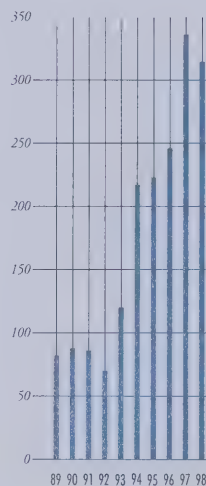
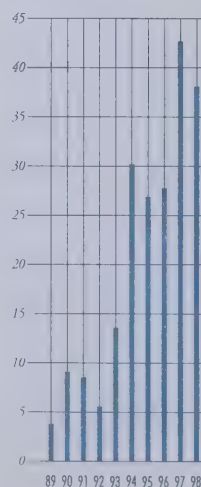
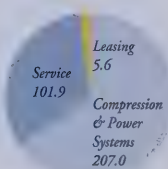
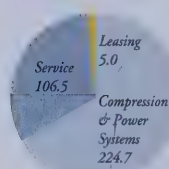


Enerflex's record of solid growth and
financial strength

was impacted only marginally by
severely constrained industry conditions this year.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenue
(\$ Millions)Income Before Income Taxes
(\$ Millions)1998 Revenue
(\$314.5 Million)1997 Revenue
(\$336.2 Million)

(Thousands)

1998

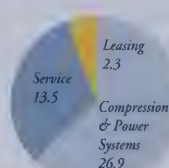
1997

REVENUE

Compression and Power Systems	\$ 207,009	\$ 224,727
Service	101,940	106,505
Leasing	5,547	4,988
	\$ 314,496	\$ 336,220

EARNINGS BEFORE INTEREST AND TAXES

Compression and Power Systems	\$ 24,013	\$ 26,918
Service	11,275	13,462
Leasing	2,508	2,312
	\$ 37,796	\$ 42,692

1998 Earnings
(\$37.8 Million)1997 Earnings
(\$42.7 Million)*Compression and Power Systems*

Revenues from the sale of Compression and Power Systems decreased by 8% in 1998. A strong backlog of orders going into 1998 enabled the Manufacturing division to increase its deliveries of custom design compression equipment to the Canadian market by 6% over 1997. However orders for new custom equipment were significantly constrained by declining customer cash flows in Canada, resulting in a substantial reduction in the backlog of undelivered orders going into 1999. The production of quick delivery standard pre-engineered compressors for sale and lease by BTB increased by 20% to record levels in 1998.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Sales of land based and other conventional compression equipment increased by 90%, deliveries were made to 14 different countries compared to 8 in 1997. However, the weakness in world oil prices had a direct negative effect on the sale of FPSO compression units, which are primarily used for the production of oil from marginal offshore reservoirs. Overall international export sales of compression equipment decreased by 15% in 1998.

Lower commodity prices adversely impacted sales of power generation equipment to the energy industry in Canada and the mining industry in Australia. Power system revenues declined 20%, however export order activity was strong during the latter stages of the year resulting in a solid backlog for deliveries in 1999.

Service

The demand for maintenance and overhaul services has continued to grow as producers maximize the production from their existing compression equipment. Sales of parts and maintenance services increased 13% in 1998. Service revenues in Australia were unchanged in 1998 despite difficult market conditions and the Aberdeen branch made a solid contribution in the later stages of the year. However these gains were offset by a 19% reduction in the re-engineering of used equipment by the Compression Services division, resulting in an overall reduction of 4% in total segment revenues in 1998.

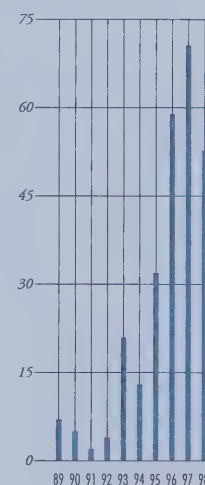
Leasing

Leasing provides an attractive alternative to producers when access to capital markets is constrained. In 1998 revenues increased 11%. The capital invested in the leasing fleet increased by 62%, most of this increase occurred in the last quarter of 1998. The full impact of this increase will benefit 1999 results. Enerflex also provided support to customers in facilitating lease and other financing alternatives.

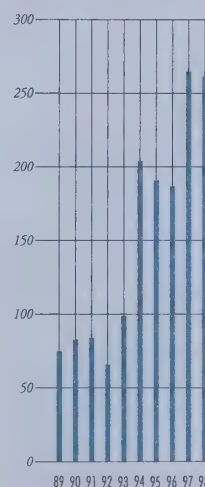
Quarterly results in 1998

Enerflex entered 1998 with a substantial backlog for the delivery of compression equipment prior to spring break up, which resulted in relatively high earnings in the first half of the year. As the year progressed the impact of declining oil prices adversely affected new equipment orders. The increasing demand for service activities and success in the international market for conventional land based compression facilities sustained earnings in the last half of 1998.

International Revenue
(\$ Millions)



Canadian Domestic Revenue
(\$ Millions)



MANAGEMENT'S DISCUSSION AND ANALYSIS

Gross margins

The overall gross margin increased to 22.4% in 1998 compared to 21.7% in 1997. Generally individual division margins were comparable to the prior year. The increase was due to the higher relative mix of revenues derived from parts and service operations.

Selling, general and administration

Selling, general and administration costs increased by 7.2% to \$32.8 million, 10.4% of revenues, in 1998 from \$30.6 million, 9.1% of revenues, in 1997. The increase was due to the higher level of service branch activity and the costs associated with the opening of international offices in Aberdeen, Paris, and Houston.

Interest

Net interest income in 1998 was \$262,000 compared to \$55,000 in 1997. In addition, \$173,000 of interest costs, which were incurred in the last quarter, were capitalized in respect of the construction of the new manufacturing facility.

Income taxes

The effective rates of income tax were 41% in 1998 and 1997. These rates are lower than the expected statutory rate in Canada due to the receipt of manufacturing and processing credits.

FINANCIAL CONDITION AND LIQUIDITY**Cash flow from operations**

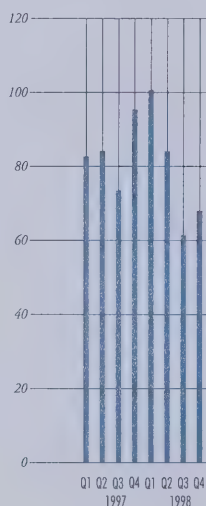
Enerflex generated \$26.0 million cash from operations in 1998, before changes in non-cash working capital components, compared to \$28.8 million in 1997.

In 1998 \$24.7 million was used to finance the working capital needs of its operations. This was due to planned increases in the level of manufactured component inventories to provide shorter delivery lead times, increased parts inventories to support increased maintenance activity, the payment of 1997 corporate income taxes and some slowing in the collection of accounts receivable.

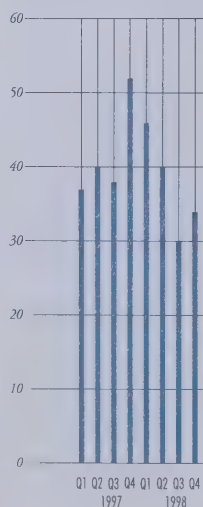
Investments

Total capital expenditures in 1998 were \$37.5 million compared to \$9.2 million in 1997. In recent years the Company's annual maintenance capital to sustain operations at current levels has approximated \$4.0 million. In 1998 Enerflex undertook a number of significant investments designed to expand revenue-generating capacity and to improve operating efficiencies.

Quarterly Revenue
(\$ Millions)



Quarterly Net Income per Share
(Cents per Share)



MANAGEMENT'S DISCUSSION AND ANALYSIS

These included:

- Δ New manufacturing plant — \$19.8 million
- Δ Increased rental fleet — \$13.6 million
- Δ Information technology — \$2.0 million

Other capital expenditures in 1998 related to manufacturing and service equipment.

The remaining costs to complete the manufacturing facility are estimated to be \$18.3 million. Enerflex also plans to further increase its rental fleet in 1999. Maintenance capital including the cost of information systems is expected to be less than historical levels in 1999.

Financing and liquidity

At December 31, 1998, the Company had an operating loan of \$3.9 million and long-term debt of \$15.2 million compared to \$19.6 million in cash a year earlier. Working capital at December 31, 1998 was \$56.0 million compared to \$58.0 million a year earlier. Shareholders' equity was \$100.0 million at December 31, 1998.

In 1999 Enerflex expects to finance its capital programs and domestic and international activities from operating cash flow. In addition to cash generated from operations, Enerflex has a \$50.0 million operating line of credit and a \$30.0 million term facility specifically provided for the completion of the new manufacturing plant. Prior to 1998, Enerflex consistently reduced the relative amount of capital required to sustain its growing operations and generated cash balances. This trend is expected to resume once its current capital expansion plans have been concluded in 1999.

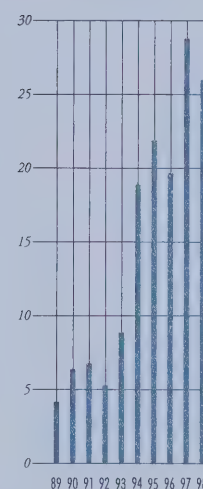
DIVIDENDS

The annual dividend per share in 1998 was 40 cents, which was a 33% increase over the dividend of 30 cents per share paid in 1997. This is a pay-out ratio of 27% of 1998 net earnings.

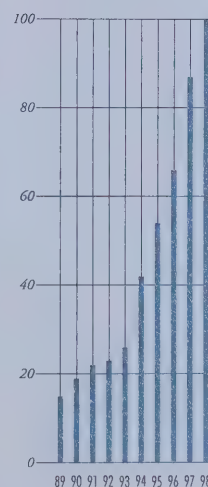
SHARE REPURCHASE

Enerflex renewed its Normal Course Issuer Bid, and purchased 114,100 shares at an average price of \$28.63 in 1998, compared to 15,700 shares purchased in 1997 at an average price of \$33.89.

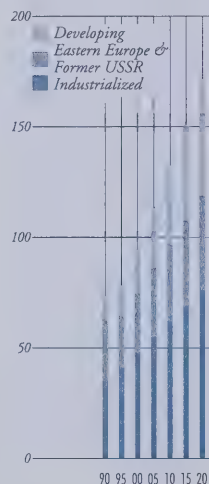
Cash Flow From Operations
(\$ Millions)



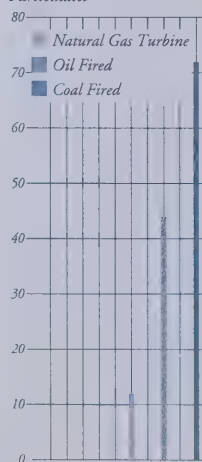
Shareholders' Equity
(\$ Millions)



World Natural Gas Consumption 1990 – 2020
(TCF per year Source EIA)



Annual Emissions of a 1 MW Power Plant
Tonnes SO_x, NO_x & Particulates



MARKETS

Enerflex's markets are primarily driven by the demand for natural gas. The experience and expertise Enerflex has gained in the Canadian market have enabled it to compete in the much larger world gas production market. Canadian gas production is less than 6% of global gas production. Over the long term, gas consumption is primarily driven by economic activity, usually measured in terms of growth in GDP. In the shorter term, activity can be influenced by both gas and oil prices, access to pipelines, producer cash flows and access to capital, and environmental concerns.

World gas markets

The Energy Information Administration (EIA) is projecting that worldwide natural gas consumption will double to 172 Tcf per year by 2020. Gas use is projected to rise at considerably higher rates than other sources of energy such as oil and coal. Much of the growth is expected to fuel the generation of electricity.

Although the deep economic recession in South East Asia has lowered near-term growth expectations both in the region and worldwide, almost half of the world's projected increase in consumption is forecast to occur in developing economies where a lack of infrastructure is often a major barrier to increased gas consumption. Throughout the world, major projects are planned to increase gathering, compression, and transmission and distribution infrastructure.

Environmental impact

Natural gas is a clean fuel. The process of burning natural gas results in virtually no atmospheric emissions of sulphur dioxide, and far lower emissions of carbon monoxide, reactive hydrocarbons, nitrogen oxides and carbon dioxide than coal or oil. In addition to economic growth, concerns over pollutant emissions are a driving force in the level of demand for cleaner burning natural gas. The impact of energy consumption and fossil fuels on global warming, together with the relatively lower costs of constructing a natural gas-fired power station, make gas an attractive option for power generation. Demand for natural gas is expected to grow relative to other sources of energy, as it becomes a substitute for coal, oil and nuclear-fuelled electric power generation and domestic consumption.

Prices and volumes

Almost all produced natural gas needs to be compressed. Therefore gas production volume is the primary driver for compression activity. The price of natural gas, to the extent it affects producer cash flows and access to capital, can have a short-term effect on compression activity.

MANAGEMENT'S DISCUSSION AND ANALYSIS

High natural gas prices, while immediately beneficial to producers, tend to lessen consumption and production growth in the long term. The ideal pricing regimen for compression activity is stable and moderate to sustain consumer demand and profitable industry economics.

Oil prices

Most producers of natural gas also derive significant cash flows from the production of oil and rely upon equity markets to fund the development of exploration and production. The decline in oil prices in 1998 and the volatility in equity markets caused a significant reduction in producer capital expenditure programs both in Canada and internationally. This reduction in activity is expected to persist in 1999.

Canada

In addition to the impact world oil prices and equity markets may have on producer activity, the demand for gas compression equipment and services in Canada over the long term is also driven by:

- Δ Export pipeline capacity
- Δ Production volumes
- Δ Reservoir production decline rates
- Δ Natural gas prices

Export pipeline capacity

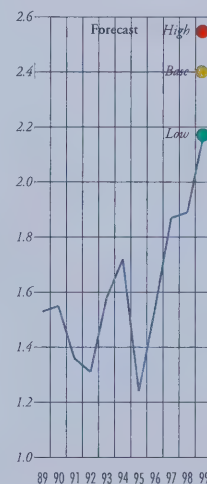
In recent years the production of natural gas in the Western Canadian basin has been constrained by the lack of capacity in export pipelines. The major pipelines exiting the basin have been operating at almost 100% utilization. Export capacity will increase by 2.6 Bcf/day over the next two years, with the expansion of 1.1 Bcf/day in late 1998 of the Northern Border and TransCanada pipelines and the addition of 1.3 Bcf/day from the Alliance Pipeline in 2000.

Production Volumes

Production volumes in Western Canada have risen from 3.4 Tcf in 1989 to an estimated 5.7 Tcf in 1998. It is projected that Western Canadian production will rise to 6.6 Tcf by 2002. The long-term demand for natural gas in North America is being driven by the use of gas to fuel the generation of electricity where natural gas can replace other relatively carbon-intense fuels and nuclear power.

Natural Gas Pricing
(\$ per GJ)

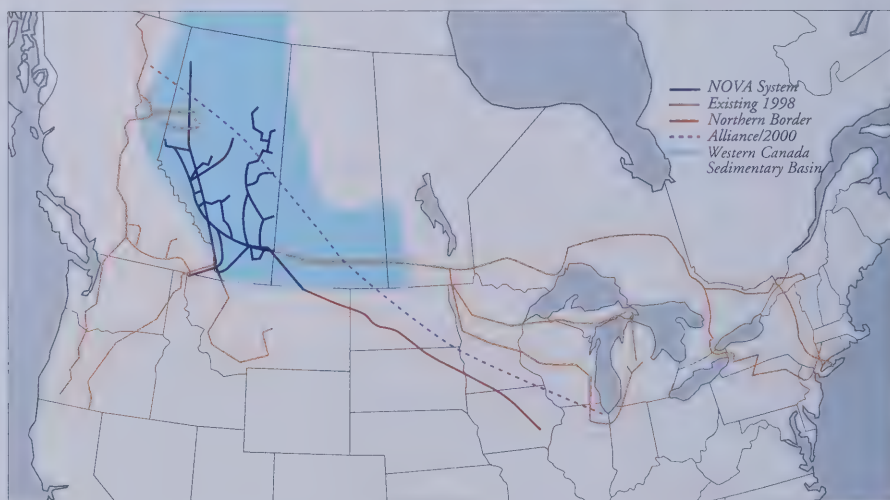
Source: Ziff Energy Group



MANAGEMENT'S DISCUSSION AND ANALYSIS

Gas Well Completions and Production Decline Rates

Over the past 4 years almost 17,000 gas wells have been completed in the Western Canadian Basin — the most ever for a 4-year period. The rate of decline in peak production of new pools has exceeded 30%. The rate of decline in peak production of older pools has remained stable below 15%. Concurrent with this increase in activity has been a geographic shift in gas drilling to the Western portion of Alberta and the Northeast region of British Columbia. This shift will require an expansion of gas delivery and processing infrastructure in the basin.



Export capacity will increase by 2.6 Bcfd/day over the next two years with the expansion of the Northern Border and the addition of the Alliance pipelines. (Source: Enflex & PanAlberta Gas)

Natural Gas Prices

Compression demand is also influenced by natural gas prices, which affect the development activities of gas producers. The average Alberta gas plant price is estimated to have been \$1.84/GJ in 1998. The Ziff Energy Group is forecasting an average price in 1999 in the range of \$2.17/GJ - \$2.55/GJ. An average price in this range would be the highest average prices realized by Western Canadian producers since the deregulation of the natural gas industry in 1985.

A high level of development drilling and additional compression horsepower will be required to meet the forecast levels of production and to also offset the effects of declining production from existing reservoirs. However, in the near term, gas storage levels, climatic conditions, industry cash flows and access to capital may postpone a recovery in the demand for compression.

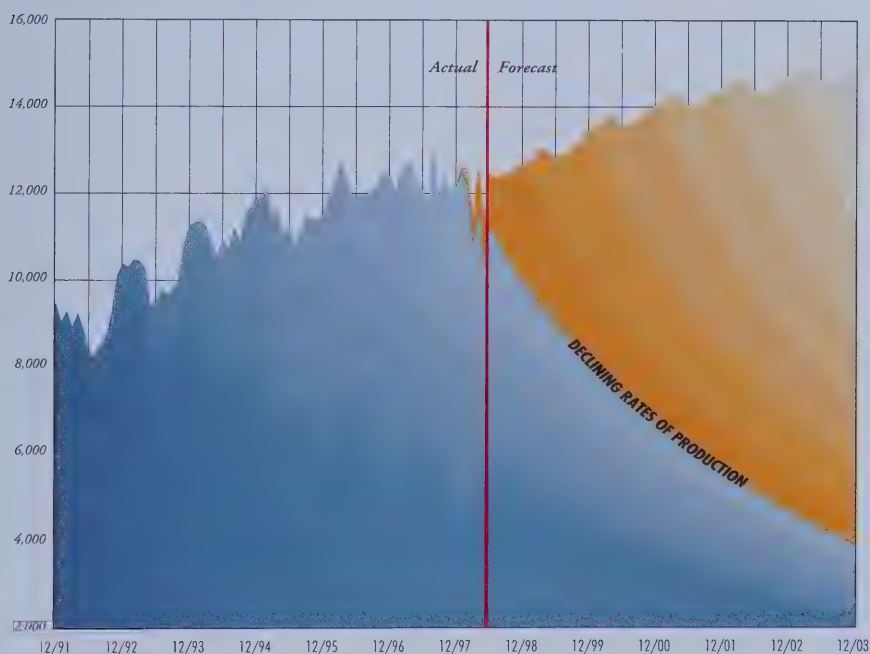
MANAGEMENT'S DISCUSSION AND ANALYSIS

SERVICE AND MODIFICATION

Parts and service activity is driven by the increasing number of installed units, higher operating load factors and the ongoing nature of maintenance and overhaul cycles. The increasing average age of the installed units and the shorter operating life of natural gas fields are the driving elements for compressor modification and retrofit operations.

Alberta Natural Gas Production and Decline Rates

(Mmcf/d) — FirstEnergy Capital Corp.



A high level of development drilling and additional compression horsepower will be required to meet the forecast levels of production and to also offset the effects of declining production from existing reservoirs.

INTERNATIONAL OFFSHORE PRODUCTION

Compression equipment is used on FPSO, and other mobile production units (MPU). While MPU technology has been in existence for more than 25 years, its general acceptance has been slow. MPU technology has mainly been used to develop marginal or otherwise uneconomic fields. Recent technical advances and changes in outsourcing attitudes have enabled MPUs to become increasingly effective in mainstream offshore development.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The use of MPU technology has grown significantly in the last five years and is forecast to continue to be an increasing factor in offshore production. However, as this is primarily an oil related activity, sales of MPU vessels are expected to be slow while oil prices remain weak.

Australia and South East Asia

Natural gas is expected to gain a larger share of Australia's growing energy demands. The mining industry is increasing its use of natural gas for power generation in remote locations and in particular along the Goldfield Gas Transmission pipeline, which transports natural gas from the North West Shelf to the mining areas of inland Western Australia. Lower commodity prices for gold and zinc have had a negative impact on the pace of development of natural gas power. The deregulation of the Australian power generation industry and the strong lobby for environmentally clean energy both support a rising market for Enerflex products and services in Australia. There are a significant number of natural gas projects planned for South East Asia, and while many have been delayed due to the current economic conditions, the long-term prospects remain positive.

Power Systems

Recent announcements regarding the retirement of nuclear facilities in Ontario and the United States as well as environmental concerns and the continuing need for power generation in developing countries, indicate significant long-term opportunities exist to increase Enerflex's power generation systems business.

COMPETITION

Canada

Enerflex is the market leader in Canada for the manufacture, rental, and modification and after market parts and service support for natural gas field compression systems. The Company is the only organization of its size that provides such a range of products and services to the gas production industry.

The Manufacturing, BTB and Compression Services operations share more than half the Canadian market and have two significant and several smaller competitors. The competitive advantage in the manufacturing and modification divisions is based on product quality, engineering expertise, a wide range of compressor models and applications, and advanced computer design systems. The employees are non-unionized and staff turnover is minimal.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Parts and service operations, operating through Pamco, have a large market share in a competitive market. Numerous smaller, regionally focused competitors exist, some of which operate exclusively for one natural gas company. Pamco's competitive strengths include the largest network of branches covering the Western Canadian Sedimentary Basin, distributorships, agreements, speed of response, experienced and well-trained personnel, an extensive inventory, a strong warranty program and synergies derived from the other divisions.

In spite of strong industry growth prospects, significant barriers exist to new entrants to the Company's business areas. These include the technological complexity of the business, the availability of supply arrangements for key equipment and replacement parts and the substantial capital and time required to establish a network of locations to provide after market support across the Western Canadian Sedimentary Basin.

Power

Enerflex Power Systems manufactures power generation units with outputs ranging from 15kW to 3MW. At the lower end of this range the market is very competitive. However the same skills Enerflex has developed in its compression manufacturing and maintenance operations enable Power Systems to compete effectively in the market for larger scale units, which are often sold in multiple sets, where customers demand a higher level of engineering, quality and assembly experience, and maintenance reliability.

International

Enerflex competes in the international market by focusing on speed of delivery and high specification modular applications incorporating the experiences gained operating in climatically harsh and remote areas of Canada. Enerflex has established close working relationships with large global engineering organizations and is expanding its regional representation in target markets.

MANAGEMENT'S DISCUSSION AND ANALYSIS**BUSINESS RISKS****Markets and operations**

World energy prices, which are affected by market forces and government regulation, influence the natural gas development activities of the Company's customers. Government regulations can also increase or decrease the demand for compression equipment and services.

Foreign exchange

The Company both purchases and sells products denominated in U.S. dollars. As a rule, domestic sales contracts have exchange clauses that protect the Company against variations in the cost of imported components. Export contracts are usually denominated in U.S. dollars, however, the Company hedges uncollected amounts with the import of materials and forward exchange contracts. The greatest effect of U.S. dollar exchange variations is felt through the price of natural gas exports and resulting customer development activity.

Cyclical nature of the energy industry

The Company reduces its exposure to the cyclical nature of markets in North America through its service and international operations. However, the timing of the development of international gas reserves is highly dependent on the regional availability of economic resources, which are influenced by the interdependence of many factors including local politics, access to reliable capital markets, and commodity prices. Enerflex's ability to match costs to operating levels has enabled it to generate cash from operations in periods of low cyclical activity.

Distribution agreements

The Company purchases most of its compressors and engines through distribution agreements for Ariel compressors and Waukesha engines. The Company and its management have had a strong relationship with both these companies since 1971 and recently became the Ariel distributor for the United Kingdom and the North Sea.

Climate changes

Climatic conditions in North America can affect the demand for gas consumption and gas prices. Warmer than usual winters in Western Canada can also restrict access to well locations, which will affect drilling operations, the installation of compression equipment and tie-ins to pipelines.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Seasonal demand

Quarterly earnings can vary according to customer demand, which in Canada is influenced by gas prices, cash flows and access to capital available to natural gas producers. In addition, access to winter well locations can increase equipment deliveries in the first quarter. Individual international projects are generally larger than domestic orders; accordingly, quarterly earnings can vary depending on customer requirements as revenues are recorded on technical completion. Service activities are generally higher in the summer months.

ENVIRONMENT

The Company's exposure to environmental hazards is not material. Periodically, Enerflex undertakes regular environmental assessments, which are conducted by an independent firm of environmental consultants.

SAFETY AND ETHICS

The Company has policies and procedures in place governing safety and utilizes division committees and employee training programs to ensure high standards of safety. The Company believes it is in compliance with its own policies and all government regulations. In order to ensure high ethical standards, the Company has a Code of Business Conduct, which is read and acknowledged by all employees when hired and every two years thereafter.

THE YEAR 2000 ISSUE

Many installed computer hardware and software products, and equipment with embedded programming, are coded to recognize only two digit entries in the date code field. Even before the year 2000, these date code fields may fail to properly recognize or calculate the date, potentially causing major systems failures or miscalculations. This phenomenon, and other potential date-sensitive failures including leap year designations, is often referred to as the "Year 2000 Issue".

A preliminary assessment of exposure to the Year 2000 Issue was made in 1997. As a result, the Company initiated the replacement of its critical information systems with software and hardware warranted to be Year 2000 compliant. These changes will also enable the Company to incorporate significant improvements in the functionality of its systems.

MANAGEMENT'S DISCUSSION AND ANALYSIS

In 1998 the Company, with the assistance of an independent consultant, developed a comprehensive program to minimize the risk of the impact, if any, of the Year 2000 Issue on the Company. The scope of the work was subdivided into three phases. Phase one, which was concluded in 1998, comprised a comprehensive inventory and review of existing equipment and systems, assessing risk and developing a strategy and detailed work plan. Phase two includes conducting tests of critical systems, requesting compliance statements from suppliers, assessing product compliance and remediating or converting non-compliant systems. Phase two is scheduled to be completed by June 1999. Phase three comprises testing of non-critical information technology systems and, if necessary, finalizing contingency plans for critical internal systems. The Company plans to continually assess the risks surrounding this issue and develop and amend its contingency plans for its internal systems to minimize the potential impact on the Company.

Generally, the Company's assembly and service operations do not require any significant reliance on date-sensitive numerically controlled devices. All of the Company's products or parts, which might contain date sensitive components, are supplied by third parties. The Company actively participates in industry work groups concerned with the compliance of compression and other production equipment. The Company has contacted its critical suppliers to assess their compliance efforts and is in the process of reviewing the responses. In cases where suppliers or their products are not considered compliant or ready, contingency plans are to be developed.

The Company has a comprehensive plan to deal with the Year 2000 Issue. The Board of Directors receives quarterly progress reports and, at this time, the costs associated with this issue are not expected to have a material effect on the financial results of the Company.

There is inherent uncertainty that not all aspects of the issue will be fully resolved. This is particularly true with respect to the risks associated with the level of preparedness of our customers and suppliers. Effects of the Year 2000 Issue could range from minor errors to significant systems failures, which may affect suppliers, customers or the Company's ability to conduct normal business operations and ultimately have a material effect on liquidity and financial condition. The Company is developing formal contingency plans in the event that internal or third party problems occur.

BOARD OF DIRECTORS

The Board is comprised of seven Directors, a majority of whom are considered to be independent of management and free of any interest or business relationship that may interfere with their judgement. No one shareholder of the Company has the ability to exercise a majority of the votes for the election of the Board of Directors.

The Company intends to maintain its policy of having a Board comprised of a majority of unrelated directors. Subject to the approval of the Corporate Governance and Compensation Committee, an individual Director can engage an outside advisor at the expense of the Company in the event there are any matters related to corporate or Board actions on which the Director wishes to receive independent, professional counsel. At December 31, 1998 the Directors were:

P. JOHN ALDRED,
Chairman of the Board
and Chief Executive Officer,
Calgary, Alberta

MALCOLM R. COX
President and Chief Operating Officer,
Chestermere, Alberta

PATRICK D. DANIEL
President and Chief Operating Officer,
— Energy Delivery, Enbridge Inc.
Calgary, Alberta.

GEOFFREY F. HYLAND,
President and Chief Executive Officer,
Shaw Industries Ltd.
Rexdale, Ontario

J. NICHOLAS ROSS,
Chairman and Chief Executive Officer,
Rover Capital Corporation,
Toronto, Ontario

HON. BARBARA J. SPARROW,
President, Sparrow Holdings Ltd.,
Calgary, Alberta

ROBERT C. WILLIAMS,
Managing Director,
Equity Capital Markets/Syndication
ScotiaMcLeod Inc.
Toronto, Ontario

Assessment of the composition of the Board and its effectiveness is the responsibility of the Corporate Governance and Compensation Committee. The Board of Directors believes that its current representation is adequate to effectively carry out its governance duties and responsibilities.

Committees of the Board

The Board has two committees, both of which are comprised of Directors who are independent of management.

THE GOVERNANCE AND MANAGEMENT OF THE COMPANY

The Corporate Governance and Compensation Committee is comprised of Mr. Robert C. Williams (Chairman), Mr. J. Nicholas Ross and Mr. Geoffrey F. Hyland. The Committee undertakes a continuous review of all aspects of the Board's governance practices and other initiatives that may be exemplary of sound governance including Board membership, remuneration and performance, identification and recruitment of new directors and new director orientation. Principal compensation responsibilities include human resource planning, compensation of executive officers and other senior management, short and long term incentive programs, pension and other benefit plans, executive officer appointments, evaluation of performance of the Chairman and Chief Executive Officer, succession planning and executive development.

The Audit Committee is comprised of Mr. Patrick D. Daniel (Chairman), Hon. Barbara J. Sparrow and Mr. J. Nicholas Ross. Principal duties include overview responsibility for financial statements and related disclosures, reports to shareholders and other related communications, establishment of appropriate financial policies, the integrity of accounting systems and internal controls, and consultation with the auditors independent of management.

Lead Director

Mr. P. John Aldred, the Chairman of the Board and Chief Executive Officer, and Mr. Malcolm R. Cox, the President and Chief Operating Officer, are the only management representatives who are also members of the Board of Directors. Mr. Robert C. Williams, who is not a member of management, has been appointed the Lead Director. The Lead Director's role is to facilitate the functioning of the Board independently of management. Amongst other things, the Lead Director serves as an independent contact for other directors on matters not deemed appropriate to be discussed initially with the Chairman or in other situations where the Chairman is not available. The Lead Director is also available to counsel the Chairman on matters appropriate for review in advance of discussion with the full Board of Directors. The Lead Director holds office until such time as he resigns or is replaced by a majority vote of the outside directors.

Responsibilities of the Board of Directors

The Board of Directors is responsible for the stewardship of the Company and considers good corporate governance to be central to the Company's effective and efficient operation. The Board is responsible for effective communications between the Company, its stakeholders and the public, and for the annual planning process, which includes strategies prepared by senior executives and the assessment of principal risks. The Board convenes at least quarterly, including periodic meetings with senior management of the Company.

To the Shareholders of Enerflex Systems Ltd.:

The accompanying consolidated financial statements and all information in the Annual Report have been prepared by management and approved by the Board of Directors. The consolidated financial statements were prepared in accordance with generally accepted accounting principles in Canada and, where appropriate, reflect management's best estimates and judgements. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality and for the consistency of financial data included in the text of the Annual Report with that in the consolidated financial statements.

To assist management in the discharge of these responsibilities, the Company maintains a system of internal controls designed to provide reasonable assurance that accounting records are reliable and assets are safeguarded.

The Audit Committee is appointed by the Board of Directors. The Audit Committee meets with management as well as with the external auditors to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements and the auditors' report. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for presentation to the shareholders. The external auditors have direct access to the Audit Committee of the Board of Directors.

The consolidated financial statements have been audited independently by Arthur Andersen LLP on behalf of the shareholders, in accordance with generally accepted auditing standards. Their report outlines the nature of their audit and expresses their opinion on the consolidated financial statements.



P. John Aldred
Chairman of the Board and Chief Executive Officer



Robert S. Woodward
Vice-President, Chief Financial Officer and Secretary
February 9, 1999

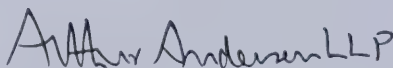
AUDITORS' REPORT

To the Shareholders of Enerflex Systems Ltd.:

We have audited the consolidated statements of financial position of Enerflex Systems Ltd. as at December 31, 1998 and 1997 and the consolidated statements of income, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



Calgary, Alberta
February 9, 1999

Arthur Andersen LLP
Chartered Accountants

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
(Thousands)	1998	1997
Assets		
Current assets		
Cash	\$ —	\$ 19,578
Accounts receivable	54,125	66,096
Inventory (NOTE 1)	45,094	26,057
Total current assets	99,219	111,731
Rental equipment (NOTE 2)	22,186	13,403
Property, plant and equipment (NOTE 3)	36,719	16,170
Goodwill, net of accumulated amortization	1,382	1,423
	<u>\$ 159,506</u>	<u>\$ 142,727</u>

Liabilities and Shareholders' Equity

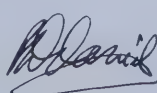
Current liabilities		
Bank loans (NOTE 4)	\$ 3,935	\$ —
Accounts payable and accrued liabilities	35,641	46,385
Income taxes payable	514	7,375
Current portion of long-term debt (NOTE 4)	3,100	—
Total current liabilities	43,190	53,760
Long-term debt (NOTE 4)	15,200	—
Deferred income taxes	1,060	2,002
	<u>59,450</u>	<u>55,762</u>
Shareholders' equity		
Share capital (NOTE 5)	34,678	34,630
Retained earnings	65,378	52,335
	<u>100,056</u>	<u>86,965</u>
	<u>\$ 159,506</u>	<u>\$ 142,727</u>

Commitments and contingencies (NOTES 6 AND 9)

On behalf of the Board:



P. John Aldred, Director



Patrick D. Daniel, Director

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31	
<i>(Thousands, except share amounts)</i>	1998	1997
Revenue	\$ 314,496	\$ 336,220
Cost of goods sold	244,065	263,316
Gross margin	70,431	72,904
Selling, general and administrative expenses	32,835	30,623
(Gain) on sale of equipment	(200)	(411)
Income before interest and taxes	37,796	42,692
Interest (income), net	(262)	(55)
Income before income taxes	38,058	42,747
Income taxes (NOTE 7)	15,490	17,526
Net income	\$ 22,568	\$ 25,221
Net income per common share – basic	\$ 1.50	\$ 1.67
– fully diluted	\$ 1.45	\$ 1.61
Weighted average number of common shares	15,085,177	15,111,147

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

	Years Ended December 31	
<i>(Thousands)</i>	1998	1997
Retained earnings, beginning of year	\$ 52,335	\$ 32,145
Net income	22,568	25,221
Common shares purchased for cancellation (NOTE 5)	(3,003)	(496)
Stock options purchased (NOTE 5)	(491)	–
Dividends	(6,031)	(4,535)
Retained earnings, end of year	\$ 65,378	\$ 52,335

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Years Ended December 31	
(Thousands)	1998	1997
<i>Operating Activities</i>		
Net income	\$ 22,568	\$ 25,221
Depreciation and amortization	4,616	4,056
Deferred income taxes	(942)	(39)
(Gain) on sale of equipment	(200)	(411)
	26,042	28,827
Changes in non-cash working capital	(24,671)	1,055
	1,371	29,882
<i>Investing Activities</i>		
Purchase of:		
Rental equipment	(13,620)	(5,769)
Property, plant and equipment	(23,887)	(3,477)
Proceeds on disposal of:		
Rental equipment	3,454	5,211
Property, plant and equipment	346	168
	(33,707)	(3,867)
<i>Financing Activities</i>		
Proceeds (repayment) of long-term debt	18,300	(4,634)
Common shares purchased for cancellation	(3,267)	(532)
Stock options purchased	(491)	—
Stock options exercised	312	404
Dividends	(6,031)	(4,535)
	8,823	(9,297)
<i>Cash (Bank Loans)</i>		
Increase (decrease) in cash	(23,513)	16,718
Beginning of year	19,578	2,860
End of year	\$ (3,935)	\$ 19,578

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Tabular Dollar Amounts in Thousands

SUMMARY OF ACCOUNTING POLICIES**Incorporation and Basis of Consolidation**

Enerflex Systems Ltd. (the "Company") is incorporated under the Canada Business Corporations Act. The consolidated financial statements comprise the accounts of Enerflex Systems Ltd. and its subsidiaries.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reporting of assets, liabilities and contingencies at the date of the consolidated financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimated.

Revenue Recognition

Revenues from the design, manufacture and installation of equipment are recorded upon substantial technical completion. Any foreseeable losses on contracts are charged to operations at the time they become evident. Revenues from parts and service sales are recorded when goods are shipped and services are rendered. Revenue from equipment leases is recorded over the lease term.

Inventory

Manufacturing materials are recorded at the lower of cost (principally on the first-in, first-out method) and net realizable value. Repair parts are recorded at the lower of cost (weighted average) and net realizable value. Work in progress includes material, labour and manufacturing overhead, and is recorded net of progress billings on a contract by contract basis.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Rental Equipment and Property, Plant and Equipment

Rental equipment and property, plant and equipment are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives (three years to twenty years) of the various classes of assets. Repairs and maintenance costs are charged to operations as incurred. Major renewals and improvements are capitalized. A provision is made in advance for major overhauls on rental equipment. No depreciation is provided on assets under construction.

Goodwill

Goodwill represents the excess of the purchase price over the value attributed to net tangible assets acquired. Goodwill is being amortized over forty years.

Income Taxes

The deferral method is used in accounting for income taxes whereby timing differences between income reported in the financial statements and taxable income result in deferred income taxes.

Forward Exchange Contracts

In the normal course of business, the Company enters into short-term foreign currency forward exchange contracts with financial institutions to hedge assets, liabilities or future commitments denominated in a foreign currency. Gains and losses arising from these contracts offset the losses and gains from the underlying hedged transactions.

Foreign Exchange Translation

Transactions and non-monetary balances denominated in foreign currency are translated into Canadian dollars using the exchange rates at the dates of the transactions; monetary balances are translated using the exchange rate at the date of the balance sheet.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. INVENTORY

	1998	1997
Manufacturing materials	\$ 7,126	\$ 8,927
Repair parts held for resale	18,783	16,952
Work in progress:		
Costs in excess of related billings	23,012	14,173
Billings in excess of related costs	(3,827)	(13,995)
	<u>\$ 45,094</u>	<u>\$ 26,057</u>

Note 2. RENTAL EQUIPMENT

	1998	1997
Cost	\$ 26,514	\$ 16,556
Less: accumulated depreciation	(4,328)	(3,153)
Net book value	<u>\$ 22,186</u>	<u>\$ 13,403</u>

Note 3. PROPERTY, PLANT AND EQUIPMENT

	1998		1997	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	\$ 2,567	\$ -	\$ 2,567	\$ -
Buildings	13,404	(5,946)	12,939	(4,682)
Equipment	20,571	(13,634)	17,877	(12,531)
Construction in progress	19,757	-	-	-
Total	<u>\$ 56,299</u>	<u>\$ (19,580)</u>	<u>\$ 33,383</u>	<u>\$ (17,213)</u>
Net book value		<u>\$ 36,719</u>		<u>\$ 16,170</u>

Construction in progress includes land of \$6,200,000 and interest capitalized of \$173,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. DEBT

Long-term debt at December 31, 1998 comprised:

Bank term loan	\$ 13,000
Note payable	5,300
	18,300
Less amounts due within one year	(3,100)
	\$ 15,200

Both the bank term loan and note payable have been provided to finance the construction of the Company's new manufacturing facility. The bank term loan is provided under a \$30,000,000 facility, is unsecured, bears interest at prime rate plus ½% and is repayable in three equal annual payments of \$10,000,000 commencing in 2002. The note payable is secured by land, and bears interest at the annual rate of 5¾%, \$3,100,000 is repayable in 1999 and \$2,200,000 in 2000.

Interest on long-term debt was \$50,000 in 1998.

The Company's operating bank lines of credit total \$50,000,000, are unsecured and bear an interest rate at bank prime.

Note 5. SHARE CAPITAL

Authorized

The Company is authorized to issue unlimited common shares and first preferred shares.

Issued

	1998		1997	
	Common Shares	Amount	Common Shares	Amount
Balance, beginning of year	15,102,700	\$ 34,630	15,072,800	\$ 34,262
Stock options exercised	30,400	312	45,600	404
Common shares purchased	(114,100)	(264)	(15,700)	(36)
Balance, end of year	15,019,000	\$ 34,678	15,102,700	\$ 34,630

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Shares Purchased

Under the provisions of the normal course issuer bids, the Company purchased 114,100 common shares at an average price of \$28.63, including commissions.

Stock Options Purchased

In 1998 the Stock Option Plan was amended to provide an optionee with the right, to request the Company to purchase from the optionee for cash all or part of the options. The price paid is equal to the difference between the market price on the day the request is received by the Company and the exercise price for those options. Options purchased by the Company are cancelled. During 1998, options to purchase 32,000 common shares were purchased for \$491,000 (net of income tax benefits of \$337,000) which has been charged to retained earnings.

Stock Options Outstanding

The Company has reserved 1,500,000 common shares under the terms of an employee stock option plan. At December 31, 1998 options in respect of 796,350 shares were outstanding at prices ranging from \$7.813 to \$38.18 with a weighted average price of \$16.29. Options vest at the rate of 20% on each of the five anniversaries from the date of grant. Options expire between May 2004 and September 2008.

Note 6. COMMITMENTS AND CONTINGENCIES

At December 31, 1998 the Company had outstanding letters of credit issued in lieu of hold-backs and performance bonds aggregating \$7,873,000.

The Company has purchase commitments to incur an estimated \$18,300,000 in costs related to the construction of the new manufacturing facility.

Note 7. INCOME TAXES

The difference between the income tax provision using statutory income tax rates and the actual income tax provision is explained as follows:

	1998	1997
Income taxes calculated at statutory rates	\$ 16,974	\$ 19,065
Manufacturing and processing profits reduction	(1,920)	(1,740)
Other	436	201
Income tax provision	\$ 15,490	\$ 17,526

Note 8. FINANCIAL INSTRUMENTS**Foreign exchange**

In the normal course of operations, the Company is exposed to movements in the U.S. and Australian dollar exchange rates, relative to the Canadian dollar. In order to minimize the exposures, the Company utilizes hedging instruments to create offsetting positions to specific exposures. These instruments are employed in connection with an underlying asset, liability or anticipated transaction, and are not used for speculative purposes.

At December 31, 1998 the Company had contracted to sell \$7,480,000 (U.S.) at an average rate of \$1.5486 in the period January to February 1999, and to sell \$3,500,000 (Australian) at an average rate of \$0.9226 in the period March to June, 1999 to manage its foreign currency exposure in the ordinary course of business.

Credit risk

A substantial portion of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks. The carrying value of accounts receivable reflects management's assessment of the credit risk associated with these customers.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Interest rate risk**

The Company manages its exposure to interest rate risk through a combination of fixed and floating rate borrowings.

Fair values of financial assets and liabilities

The fair values of financial instruments that are included in the consolidated balance sheet, other than long-term debt, approximate their carrying amount due to the short-term maturity of those instruments. The fair value of long-term debt does not differ significantly from its carrying amount.

Note 9. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

Most entities depend on computerized systems and therefore are exposed to the Year 2000 conversion risk, which, if not properly addressed, could affect an entity's ability to conduct normal business operations. Management is addressing this issue, however, given the nature of this risk, it is not possible to be certain that all aspects of the Year 2000 issue affecting the Company and those with whom it deals such as customers, suppliers, or other third parties, will be fully resolved without adverse impact on the Company's operations.

Note 10. SEGMENTED INFORMATION

The Company operates in three reportable segments, each offer different products and services. These segments are Compression and Power Systems, which includes design, fabrication and installation of modular compression and power systems, Service, which includes the supply of parts, maintenance and the re-engineering of used compression and power systems, and Leasing.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Compression and Power Systems		Service		Leasing		Consolidated	
	1998	1997	1998	1997	1998	1997	1998	1997
Segment revenue	220,349	231,042	110,644	114,488	5,547	4,988	336,540	350,518
Intersegment								
revenue	(13,340)	(6,315)	(8,704)	(7,983)	—	—	(22,044)	(14,298)
External revenue	207,009	224,727	101,940	106,505	5,547	4,988	314,496	336,220
Earnings before								
interest and taxes	24,013	26,918	11,275	13,462	2,508	2,312	37,796	42,692
Depreciation and								
amortization	1,689	1,354	1,368	1,378	1,559	1,324	4,616	4,056
Segment assets	78,997	55,566	56,640	52,588	22,373	13,285	158,010	121,439
Cash							—	19,578
Corporate							1,496	1,710
							159,506	142,727
Capital expenditures	20,061	1,737	2,859	1,714	14,544	5,769	37,464	9,220
Corporate							43	26
							37,507	9,246

Inter-segment revenues are accounted for as sales to third parties, at current market prices.

The Company derived \$52,755,000 (\$70,584,000 in 1997) of revenues from foreign countries, including gross exports from domestic operations of \$47,901,000 (\$57,363,000 in 1997). Sales to any one country are not considered to be individually significant.

TEN YEAR FINANCIAL AND OPERATING SUMMARY

<i>(Millions, except per share data)</i>	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
RESULTS										
Revenue	314.5	336.2	245.9	222.7	217.3	120.0	69.5	85.9	88.2	82.2
EBITDA ¹	42.4	46.7	32.4	32.2	33.8	17.0	8.8	12.7	12.1	7.8
Income before income taxes	38.1	42.7	27.8	26.9	30.2	13.6	5.6	8.6	9.1	3.8
Net income	22.6	25.2	16.5	16.1	17.8	7.7	3.0	4.7	4.8	1.8
Net income per										
common share - basic	1.50	1.67	1.10	1.07	1.17	0.51 ²	0.18 ²	0.29 ²	0.28 ²	0.07 ²
Interest expense (income)	(0.3)	(0.1)	0.7	1.3	1.3	1.1	0.8	0.9	1.1	2.2
Depreciation										
and amortization	4.6	4.1	3.9	4.0	2.3	2.3	2.3	3.2	1.9	1.8
Cash from operations										
before changes in non-										
cash working capital	26.0	28.8	19.7	21.9	18.9	8.9	5.3	6.8	6.4	4.2
Capital expenditures, net										
Rental equipment	10.2	0.6	(2.2)	0.2	8.6	2.7	0.1	1.5	0.5	0.7
Property, plant and										
equipment	23.5	3.3	2.7	3.7	7.2	1.6	0.9	0.8	3.7	0.4
Dividends on										
common shares	6.0	4.5	3.8	3.8	2.6	2.6	0.1	—	—	—
FINANCIAL POSITION										
Working capital	56.0	58.0	37.7	26.9	13.0	12.5	12.6	8.6	6.4	7.5
Total assets	159.5	142.7	106.4	91.8	102.5	62.0	41.4	38.6	43.9	37.2
Long-term debt	15.2	—	—	4.6	4.7	4.8	4.9	3.5	3.5	5.4
Shareholders' equity	100.1	87.0	66.4	53.6	41.6	26.5	23.4	22.1	19.3	15.2
KEY RATIOS										
Gross margin										
as a % of revenue	22.4	21.7	21.4	22.3	23.6	23.2	23.5	23.7	23.0	19.0
Pre-tax income										
as a % of revenue	12.1	12.7	11.3	12.1	13.9	11.3	8.1	10.0	10.4	4.6
Return on opening equity	26.0	38.0	30.9	38.8	67.2	32.9	13.6	24.4	31.7	12.0

¹ Earnings before interest, taxes, depreciation and amortization² Pro forma based on 15,114,000 common shares outstanding after the public offering of September 1993³ Effective May 14th, 1997, the common shares of the Company were subdivided on a two for one basis.

All the share data has been restated to give effect to the subdivision.

SUMMARY QUARTERLY RESULTS

(Millions, except per share data)	1998				1997			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	68.1	61.5	84.2	100.7	95.5	73.6	84.3	82.8
EBITDA	9.9	8.6	11.3	12.6	14.2	10.7	11.3	10.5
Income before income taxes	8.7	7.4	10.3	11.7	13.4	9.6	10.2	9.5
Net income	5.0	4.5	6.1	7.0	7.8	5.7	6.0	5.7
Net income per								
common share - basic	0.34	0.30	0.40	0.46	0.52	0.38	0.40	0.37
Depreciation and amortization	1.1	1.2	1.2	1.1	1.0	1.1	1.0	1.0
Cash from operations before changes								
in non-cash working capital	5.5	5.4	7.1	8.0	8.6	6.5	7.2	6.5
Capital expenditures, net								
Rental equipment	6.9	1.7	0.5	1.1	(0.2)	0.8	0.1	(0.1)
Property, plant and equipment	10.0	4.9	6.8	1.8	0.1	1.7	0.6	0.9
Dividends on common shares	1.5	1.5	1.5	1.5	1.1	1.1	1.1	1.1
Dividends per common share (¢)	10.0	10.0	10.0	10.0	7.5	7.5	7.5	7.5
Pre-tax income as a % of revenue (%)	12.8	12.0	12.2	11.6	14.0	13.1	12.1	11.5

COMMON SHARE DATA

	1998	1997	1996	1995	1994	1993
Trading price range of						
common stock - high	45.60	44.00	18.25	9.00	9.75	8.75
- low	23.85	16.75	8.19	6.12	7.00	6.00
- close	29.50	32.50	16.50	8.38	8.69	7.50
Trading volume (millions)	7.5	7.7	3.0	4.5	5.5	2.6
Common shares (millions)						
Outstanding December 31	15.0	15.1	15.1	15.1	15.1	15.1
Weighted average - basic	15.1	15.1	15.1	15.1	15.1	15.1

CORPORATE DIRECTORY

Directors

P. John Aldred
Chairman of the Board
and Chief Executive Officer
of the Company
Calgary, Alberta

Malcolm R. Cox
President and
Chief Operating Officer
of the Company
Chestermere, Alberta

Patrick D. Daniel ⁽¹⁾
President and
Chief Operating Officer
– Energy Delivery
Enbridge Inc.
Calgary, Alberta

Geoffrey F. Hyland ⁽²⁾
President and
Chief Executive Officer
Shaw Industries Ltd.
Rexdale, Ontario

J. Nicholas Ross ^{(1) (2)}
Chairman and
Chief Executive Officer
Rover Capital Corporation
Toronto, Ontario

Hon. Barbara J. Sparrow ⁽¹⁾
President,
Sparrow Holdings Ltd.
Calgary, Alberta

Directors

Robert C. Williams ⁽²⁾
Managing Director
Equity Capital
Markets/Syndication
ScotiaMcLeod Inc.
Toronto, Ontario

Note:

(1) Member of Audit Committee

*(2) Member of Corporate
Governance and
Compensation Committee*

Officers

P. John Aldred
Chairman of the Board
and Chief Executive Officer
Calgary, Alberta

Malcolm R. Cox
President and
Chief Operating Officer
Chestermere, Alberta

Wayne G. Adams
Vice-President,
Calgary, Alberta

Niels W. Bang
Vice-President
Calgary, Alberta

Peter J. Conway
Vice-President
Calgary, Alberta

Robert S. Woodward
Vice-President,
Chief Financial Officer
and Secretary
Calgary, Alberta

Auditors

Arthur Andersen LLP
Calgary, Alberta

Bankers

*Canadian Imperial Bank of
Commerce*
Calgary, Alberta

Solicitors

Bennett Jones
Calgary, Alberta

Transfer Agents

*Montreal Trust
Company of Canada*
Calgary and Toronto

Canada*Corporate Office*

4949 76 Avenue SE
Calgary, Alberta
Canada T2C 3C6
Tel: (403) 236-6800
Fax: (403) 236-6816

Enerflex Manufacturing

4949 76 Avenue SE
Calgary, Alberta
Canada T2C 3C6
Tel: (403) 236-6800
Fax: (403) 279-0367

Compression Services

5049 74 Avenue SE
Calgary, Alberta
Canada T2C 3H2
Tel: (403) 720-3822
Fax: (403) 720-3766

BTB Compressors

8241 31 Street SE
Calgary, Alberta
Canada T2C 1H9
Tel: (403) 720-0590
Fax: (403) 720-0611

Enerflex Leasing Ltd.

5049 74 Avenue SE
Calgary, Alberta
Canada T2C 3H2
Tel: (403) 720-3844
Fax: (403) 720-3766

Pamco

BRANCHES & OFFICES

8241 31 Street SE
Calgary, Alberta
Canada T2C 1H9
Tel: (403) 279-5561
Fax: (403) 279-7649

6328 30 Street SE
Calgary, Alberta
Canada T2C 1V6
Tel: (403) 236-1900
Fax: (403) 236-2672

8235 Wagner Road
Edmonton, Alberta
Canada T6E 4N6
Tel: (780) 465-5371
Fax: (780) 466-8433

6781 52 Avenue
Red Deer, Alberta
Canada T4N 4K8
Tel: (403) 341-3900
Fax: (403) 341-3908

130 MacKenzie King Road
Fort McMurray, Alberta
Canada T9H 4L2
Tel: (780) 790-9612
Fax: (780) 743-9191

8410 113 Street
Grande Prairie, Alberta
Canada T8V 6T9
Tel: (780) 539-5974
Fax: (780) 539-0370

1001 South Railway Avenue
Drumheller, Alberta
Canada T0J 0Y0
Tel: (403) 823-9834
Fax: (403) 823-9859

1269 Brier Park Drive NW
Medicine Hat, Alberta
Canada T1C 1T1
Tel: (403) 526-1866
Fax: (403) 529-6537

10303 Alaska Road
Fort St. John, British
Columbia
Canada V1J 1B1
Tel: (250) 785-1171
Fax: (250) 785-5936

5103 48 Avenue
Fort Nelson, British
Columbia
Canada V0C 1R0
Tel: (250) 774-2895
Fax: (250) 774-4619

210 19358 96 Avenue
Surrey, British Columbia
Canada V4N 4C1
Tel: (604) 882-8440
Fax: (604) 882-8445

5003 40 Avenue
Lloydminster, Saskatchewan
Canada S9V 0X9
Tel: (306) 825-9800
Fax: (306) 825-7974

CORPORATE DIRECTORY

60 A McGriskin Road
Scarborough, Ontario
Canada M1S 5C5
Tel: (416) 298-4222
Fax: (416) 298-9927

SATELLITE LOCATIONS

Edson, Alberta
Tel: (780) 723-7292
Fax: (780) 723-7152

Manning, Alberta
Tel: (780) 836-2939
Fax: (780) 836-2931

Slave Lake, Alberta
Tel: (780) 849-6555
Fax: (780) 849-1937

London, Ontario
Tel: (416) 805-8507
Fax: (519) 293-3957

Bonnyville, Alberta
Tel: (780) 812-2090
Fax: (780) 812-2028

Enerflex Training Centre

6328 30 Street SE
Calgary, Alberta
Canada T2C 1V6
Tel: (403) 720-6677
Fax: (403) 720-4811

Enerflex Power Systems

5470 53 Street SE
Calgary, Alberta
Canada T2C 4B6
Tel: (403) 720-3733
Fax: (403) 720-3742

United Kingdom*Enerflex Limited*

Stanley House
49A High Street
Henley-in-Arden
West Midlands B95 5AA
England
Tel: 011 44 1564 795300
Fax: 011 44 1564 974345

Enerflex Limited

Parts and Service
Unit D15, Wellheads Cr.
Wellheads Industrial Estate
Dyce, Aberdeen
AB210GA Scotland
Tel: 011 44 1224 773223
Fax: 011 44 1224 773224

U.S.A.*Enerflex Systems, Inc.*

1800 West Loop South
Suite 1565
Houston, Texas
77027 U.S.A.
Tel: (713) 355-6645
Fax: (713) 355-1067

Australia

*Gas Drive Systems Pty.
Limited & Enerflex Systems
Pty. Limited*

BRANCHES & OFFICES

Unit C,
28-32 Egerton Street
Silverwater, Sydney
NSW 2141, Australia
Tel: (011612) 9-748-7100
Fax: (011612) 9-748-7114

Brewer Power Station
Brewer Road,
Alice Springs
NT 0870, Australia
Tel: (011618) 8-953-3007
Fax: (011618) 8-952-8055

7-11 Catalano Road
Canning Vale, Perth
WA 6155, Australia
Tel: (011618) 9-456-0457
Fax: (011618) 9-456-0458

France*Enerflex International S.A.*

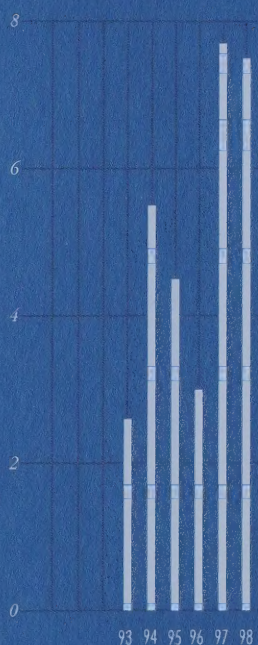
Le Nautilus
32 avenue de L'île St. Martin
92000 Nanterre, France

COMMON SHARE PERFORMANCE

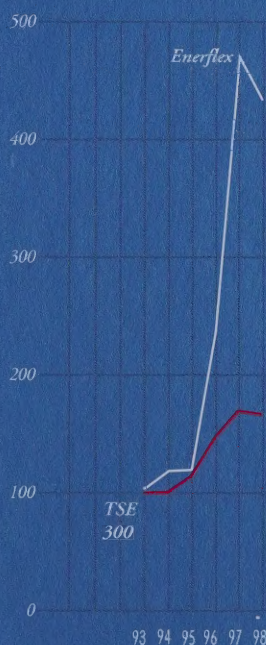
Trading History
(\$ per Common Share)



Trading Volume
(Millions of Shares Traded)



Common Share Performance
(\$)



Common Shares

Listed on
The Toronto Stock Exchange

Stock symbol: **EFX**

Annual Information Form

Copies available on request to the Secretary of the Company

Website

www.enerflex.com



4949 76 Avenue SE

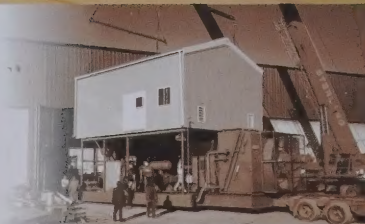
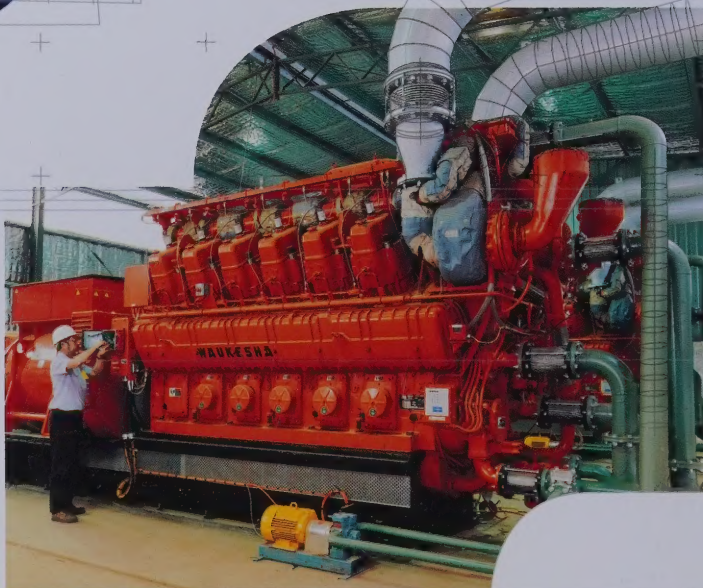
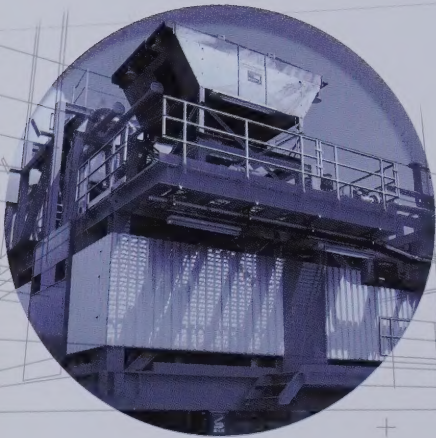
Calgary, Alberta

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Annual Report

